102D CONGRESS
1st Session
HOUSE OF REPRESENTATIVES
REPORT
102-224

FEDERAL DEBT MANAGEMENT RESPONSIBILITY ACT OF 1991

SEPTEMBER 26, 1991.—Committed to the Committee of the Whole House on the State of the Union and Ordered to be printed

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Mr. ROSTENKOWSKI, from the Committee on Ways and Means, submitted the following

REPORT

[To accompany H.R. 3365]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the bill (H.R. 3365) to amend title 31, United States Code, to restrict the authority of newly established Government-related corporations to borrow from the Treasury and to require an annual evaluation of the impact of public borrowing by such corporations on the public debt, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The amendments (stated in terms of the page and line numbers of the introduced bill) are as follows:

Page 2, line 11, strike "issuance" and insert "use of proceeds".

Page 2, beginning on line 15, strike "No obligation may be issued under subchapter I if any of the proceeds of such obligation will be used" and insert the following: "None of the proceeds of any obligation issued under subchapter I may be used".

Page 4, after line 12, strike "issuance" in the item relating to section 3141 and insert "use of proceeds".

I. LEGISLATIVE BACKGROUND

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) directed the Department of the Treasury and the General Accounting Office (GAO) to address in two annual reports, the financial safety and soundness of government-sponsored enterprises (GSEs). The Department of the Treasury also was directed to study the impact of GSE operations on Federal borrowing.

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The resulting studies found that existing GSEs posed no immediate financial risk, but that operation and regulation of GSEs could be improved with the aim of reducing any potential future risks.

The Omnibus Budget Reconciliation Act of 1990 (the 1990 Budget Act), in response to increased interest in Congressional oversight of government-related corporations, mandated that the Department of Treasury and the Congressional Budget Office study and report to the Congress on a variety of interrelated issues surrounding the financial health of government-related corporations and the potential exposure of the Federal Government to back the obligations of such corporations. The 1990 Budget Act also required that House committees of jurisdiction prepare and report legislation to ensure the financial soundness of government-related corporations and to minimize Federal Government financial exposure.

In response to that mandate, on September 19, 1991, Mr. Rostenkowski, for himself, Mr. Archer, Mr. Pickle, and Mr. Gradison introduced H.R. 3365, to restrict the authority of new government-related corporations to borrow from the Treasury unless those corporations have been designated as qualified or the amounts lent have been approved in advance in an appropriations Act, and to require an annual evaluation of the impact of such borrowing on the public debt markets.

II. Explanation of the Bill

A. Present Law

Over the course of several decades, a number of government-related corporations have been created to perform a variety of public, market-related operations. Some of these entities are owned in whole, or in part, by the Federal Government. Others are privately-owned GSEs. In order to facilitate their ability to perform their functions promptly and efficiently, these entities have been given special powers and privileges, including the authority to borrow directly form the U.S. Treasury. Several also borrow directly in the financial markets.

Because of their special powers and privileges, the obligations issued by these entities are perceived by credit markets to be backed by the Federal Government. The markets rely on the moral commitment, or the implied full faith and credit, of the United States for protection. Obligations of government-related corporations are traded in Federal agency credit markets, and thus compete with obligations issued by the Treasury.

If not carefully reviewed and considered in the context of overall Federal debt management, growth in the activities of government-related corporations could have negative effects on the issuance of public debt. In addition, the ability of a government-related corporation to borrow from the Federal Government could result in the government's lending of funds to financially risky entities. Indeed, the mere presence of such authority to borrow from the Treasury serves to enhance the implicit government guarantee that these corporations enjoy in the credit markets. Thus, it reduces the level of market scrutiny that these entities would otherwise receive.

B. REASONS FOR CHANGE

The Committee has become concerned about the recent growth in the number, the scope, and the size of government-related corporations and the impact of their borrowing activities on the costs of Federal indebtedness. The President's Budget for fiscal year 1992 reports that borrowing by GSEs totalled $896.6 billion in fiscal year 1990, and further estimates that this will grow to $981.2 billion in fiscal year 1991 and $1.056 trillion in fiscal year 1992.

Because of the potential impact on the cost of public debt and the implicit commitment of the Federal Government to back the obligations of such corporations, each newly formed government-related corporation should be carefully reviewed to ensure that it will be financially viable and able to repay its debts. Each entity that wishes to borrow from the Federal Treasury must demonstrate its creditworthiness. The Congress has both a right and a responsibility to consider the financial strength of such a corporation before Treasury's authority to issue public debt on behalf of and then lend the proceeds of that debt to the entity it granted.

The Committee believes that the need to designate newly created government-related corporations as qualified to borrow from the Treasury and list such entities as qualified in the public debt title of the U.S. Code will provide the appropriate opportunity for review and assessment of the likely creditworthiness of such entities. The Committee believes that this legislation would spur more responsible fiscal decisionmaking and will reduce the potential for higher-cost public debt and other financial risks to the Federal Government and the American taxpayer.

Further, the Committee believes that regular scrutiny of the effects on public debt of the borrowing activities of government-related corporations will provide the necessary information for sound future legislation and regulation regarding their activities.

C. EXPLANATION OF PROVISIONS

1. Prohibition on use of proceeds unless entity is designated as qualified

H.R. 3365, as amended, would modify Chapter 31 of Title 31 of the United States Code to prohibit the lending of proceeds from any issuance of U.S. Treasury securities to a government-related corporation, unless that corporation were designated as a qualified entity and listed in Title 31, or unless the amounts lent are approved in advance in an appropriations Act. This provision would apply only to amounts lent to newly created government-related corporations established by any law enacted after September 19, 1991, the date of introduction of the bill. It would not affect the Treasury's authority to lend to existing corporations.

2. Treasury report on impact of borrowing by government-related corporations on public debt

H.R. 3365, as amended, requires the Secretary of the Treasury to prepare and submit to the Congress each year a report on the impact of the issuance or guarantee of securities by all government-related corporations on interest rates and the amount of dis-

count on U.S. Treasury obligations, and on the marketability of Treasury obligations, that is, the effects of competition between Treasury obligations and those of government-related corporations. The first annual report would be due on October 1 of the first calendar year that begins after enactment of this legislation.

The Committee's intention is that the Treasury Department study and analyze those entities whose borrowings are sufficiently large that they may have significant impact on the public debt and on credit markets. Entities whose borrowing activities are too small to have a significant impact should be listed in the annual reports but would not have to be analyzed more fully.

D. EFFECTIVE DATE

The Committee bill's prohibition on use of proceeds would be effective for any government-related corporation established by any law enacted after September 19, 1991.

III. VOTE OF THE COMMITTEE AND OTHER MATTERS TO BE DISCUSSED UNDER HOUSE RULES

A. VOTE OF THE COMMITTEE

In compliance with clause 2(l)(2)(b) of rule XI of the Rules of the House of Representatives, the following statement is made about the vote of the Committee on Ways and Means on the motion to report the bill, H.R. 3365. The Committee ordered the bill, as amended, favorably reported by voice vote.

B. COMMITTEE BUDGET ESTIMATE

In compliance with clause 7(a) of rule XIII of the Rules of the House of Representatives, the Committee states that there would be no budgetary impact from enacting this bill.

C. OTHER MATTERS

In compliance with clause 2(l)(3) and 2(l)(4) of rule XI of the Rules of the House of Representatives, the following statements are made with respect to the Committee action on H.R. 3365.

Oversight findings

With respect to subdivision (A) of clause 2(l)(3) (relating to oversight findings), the Committee advises that it was a result of the Committee review of Federal debt management issues that the Committee concluded that it is appropriate to enact the provisions off H.R. 3365.

New budget authority and tax expenditures

With respect to subdivision (B) of clause 2(l)(3), the Committee states that the changes made to existing law by the Committee bill as reported involve no increase or reduction in tax expenditures, budget authority or new spending authority as described in section 401(c)(2) of the Congressional Budget Act of 1974.

Congressional Budget Office estimate

With respect to subdivision (C) of clause 2(l)(3), the following estimate from the Congressional Budget Office is provided:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, September 25, 1991.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
U.S. House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has reviewed H.R. 3365, the Federal Debt Management Responsibility Act, as amended and ordered reported by the House Committee on Ways and Means on September 25, 1991, If enacted, the bill would restrict the authority of newly established government-related corporations to borrow from the Treasury and require an annual evaluation of the impact on the public debt of public borrowing by such corporations. We expect that enactment of the bill would not result in any significant cost or savings to the federal government at this time. Enactment of the legislation would not affect direct spending or receipts. Therefore, pay-as-you-go procedures would not apply to the bill.

H.R. 3365 would specify the conditions under which government-related corporations established pursuant to any law enacted on or after September 19, 1991, could borrow from the U.S. Treasury. Such borrowing could occur only if approved in advance in an appropriation act, or if the corporation were specifically designated in chapter 31 of title 31, United States Code. This provision would apply to corporations owned in whole or part by the federal government and to any privately owned government-sponsored enterprise. CBO has no way of estimating the number of such corporations that might be created in the future.

The bill would also require the Secretary of the Treasury to prepare annually a report on the impact on Treasury borrowing of securities issued or guaranteed by government-related corporations. CBO would not expect the cost of this report to be significant.

No costs would be incurred by state or local governments as a result of enactment of this legislation.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Brent Shipp, who can be reached at 226–2860.

Sincerely,

ROBERT D. REISCHAUER,
Director.

Oversight by the Committee on Government Operations

With no respect to subdivision (D) of clause 2(l)(3), the Committee advises that no oversight findings or recommendations have been submitted to the Committee on Ways and Means by the Committee on Government Operations regarding the subject of the Committee bill.

Inflationary impact

In compliance with clause 2(l)(4), the Committee states that since there is no budgetary impact or regulatory impact from the bill, there will be no effect on the inflation rate.

IV. CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

TITLE 31, UNITED STATES CODE

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Subtitle III—Financial Management

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CHAPTER 31—PUBLIC DEBT

Subchapter I—Borrowing Authority

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Subchapter III—Restriction and Evaluation of Borrowing Authority of Certain Government-Related Corporations

3141. Limitation on use of proceeds of Treasury obligations to lend amounts to certain newly established Government-related corporations.

3142. Annual report on impact of borrowing by Government-related corporations on public debt.

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Subchapter III—Restriction and Evaluation of Borrowing Authority of Certain Government-Related Corporations

§ 3141. Limitation on use of proceeds of Treasury obligations to lend amounts to certain newly established Government-related corporations

(a) IN GENERAL.—None of the proceeds of any obligation issued under subchapter I may be used to lend any amount to a newly established Government-related corporation under any authority of such corporation to borrow from the Treasury, unless—

(1) such corporation is a qualified corporation, or

(2) such borrowing is approved in advance in an appropriations Act.

(b) NEWLY ESTABLISHED GOVERNMENT-RELATED CORPORATION.—For purposes of this section—

(1) IN GENERAL.—The term "newly established Government-related corporation" means any Government-related corporation

which is established pursuant to any law enacted after September 19, 1991.

(2) GOVERNMENT-RELATED CORPORATION.—The term "Government-related corporation" means—

(A) any corporation owned in whole or part by the Federal Government, and

(B) any privately owned Government-sponsored enterprise.

(c) QUALIFIED CORPORATION.—For purposes of this section, the term "qualified corporation" means any newly established Government-related corporation which is hereafter designated in this subsection as a qualified corporation.

§ 3142. Annual report on impact of borrowing by Government-related corporations on public debt

(a) GENERAL REQUIREMENT.—The Secretary of the Treasury shall annually prepare and submit to the Congress a report setting forth the impact of the issuance or guarantee of securities by Government-related corporations (as defined in section 3141(b)(2)) on—

(1) the rate of interest and amount of discount offered on obligations issued by the Secretary under subchapter I, and

(2) the marketability of such obligations.

(b) DEADLINE.—The report required by subsection (a) shall be submitted to the Congress by October 1 of the 1st calendar year beginning after the date of the enactment of this section, and by each October 1 thereafter.

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